

**REPORT ON EXAMINATION**  
**OF THE**  
**CIGNA HEALTHCARE OF DELAWARE, INC.**  
**AS OF**  
**DECEMBER 31, 2006**

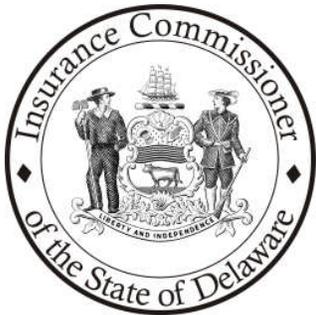
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

**CIGNA HEALTHCARE OF DELAWARE, INC.**

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 13 JUNE 2008



*In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 13TH DAY OF JUNE 2008.*

Matthew Denn  
Insurance Commissioner

**REPORT ON EXAMINATION**  
OF THE  
**CIGNA HEALTHCARE OF DELAWARE, INC.**  
AS OF  
**December 31, 2006**

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", written in a cursive style.

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MATTHEW DENN  
INSURANCE COMMISSIONER

DATED this 13TH Day of JUNE 2008.

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**SALUTATION**

January 30, 2008

Honorable Matthew Denn  
Insurance Commissioner  
State of Delaware  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 07.053, dated October 11, 2007, an examination has been made of the affairs, financial condition and management of the

**CIGNA HEALTHCARE OF DELAWARE, INC.**

hereinafter referred to as “Company”, incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 1209 Orange Street, Wilmington, Delaware and its main administrative office located at 1777 Sentry Park West, Gwynedd Hall, Suite 100, Blue Bell, Pennsylvania 19422. The examination was conducted at the primary location of the Company’s books and records located at 900 Cottage Grove Road, Bloomfield, Connecticut 06002.

The report of examination thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

The last examination was conducted as of December 31, 2002. This examination covered the period from January 1, 2003 through December 31, 2006, and consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This report is presented on the exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company Officials during the course of the examination.

The general procedures of the examination followed the rules established by the Committee on Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware.

In addition to noted items in this report, the following topics were reviewed and are included in the workpapers of this examination. No exceptions or errors were noted during our review of these items:

- Corporate Records
- Employees and Agents Welfare
- Fidelity Bond
- Legal Actions
- All Asset and Liability Items Not Mentioned in This Report
- Subsequent Events

## **HISTORY**

The Company was incorporated on May 29, 1984 under the laws of the State of Delaware and domiciled in Claymont, Delaware. The Company is a health maintenance organization (HMO) which commenced operations on May 1, 1985. Since the inception of the Company through July 2, 1995, CIGNA Healthplan, Inc. owned all of the Company's outstanding stock. Effective July 3, 1995 CIGNA Healthplan, Inc. changed its name to CIGNA Health Corporation. On April 1, 1998, CIGNA Health Corporation (CHC) transferred the ownership of the Company to Healthsource, Inc (Parent), which is a wholly-owned subsidiary of CIGNA Health Corporation, which in turn, is an indirect wholly-owned subsidiary of CIGNA Corporation (CIGNA).

## **CAPITALIZATION**

The Company's certificate of incorporation authorized the issuance of 3,000 shares of common stock with a par value of \$100 per share. As of December 31, 2006, the Company had issued 3,000 shares of common stock, all of which are owned by Healthsource, Inc., a wholly owned subsidiary of CIGNA Health Corporation (CHC), the ultimate parent being CIGNA Corporation (CIGNA).

### **Dividends**

The Company declared and paid extraordinary dividends to its parent during the examination as follows:

<u>Year</u>	<u>Date approved</u>	<u>Amount</u>
2006	December 19, 2006	\$1,000,000
2003	April 28, 2003	2,000,000

**MANAGEMENT AND CONTROL**

The bylaws state that the business and affairs shall be managed by a Board of Directors, consisting of one or more directors. The directors shall be elected at the annual meeting of the stockholders and shall hold office until a successor is elected and qualified. It is not necessary for the directors to be stockholders or residents of Delaware. The Company's bylaws have not been amended during this examination period.

The following, elected by unanimous vote of the sole shareholder at the meeting of August 2, 2006, constitutes the Board of Directors as of December 31, 2006:

Vincent John Sobocinski, Jr.  
David Goldberg  
Glenn David Pomerantz, M.D.

The bylaws, as amended, state that the officers of the Company shall include a President, Secretary and a Treasurer. The Board of Directors may also appoint a Chairman, one or more Vice Chairmen of the Board, one or more Vice Presidents, and such other officers as are from time to time desired. As of the examination date, the Company had not appointed a chairman. The following were elected by unanimous vote of the Board of Directors at the meeting of August 2, 2006, as officers of the Company as of December 31, 2006:

Vincent John Sobocinski, Jr.	President
Susan Laura Cooper	Secretary
Scott Ronald Lambert	Treasurer, Vice President
James Vincent Vasquezna, Jr.	Vice President
Karen Elaine Ferrell	Vice President
David Goldberg	Vice President
Jeffery Lynn Novak	Vice president
David Mathew Porcello	Vice President
Timothy Burton	Vice President
John Patrick Frey	Vice President
Allan Edward Hanssen	Vice President
Barry Richard McHale	Vice President
Robert David Picinich	Vice President
Vincent Lewis Shreckengast	Vice President

Leslie Neil Cambell	Vice President
Glenn Michael Gerhard	Vice President
Kathleen McCabe Hockmuth	Vice President
Daniel Jules Nicoll, M.D.	Vice President
Glenn David Pomerantz, M.D.	Vice President
Joseph Edward Turgeon, III	Vice President

### **HOLDING COMPANY SYSTEM**

The Company is a member of an Insurance Holding Company System. The ultimate parent of the system is the CIGNA Corporation (Parent). The following is an organizational chart that reflects the identities and interrelationships between the Company, Parent, and other upstream members of the system as of December 31, 2006:



Copies of the “Form B Holding Registration Statements” filed with the Delaware Insurance Department, during the period under examination, were reviewed. The Company has complied with the provisions of Regulation 13 of the Delaware Insurance Code.

## **MANAGEMENT AND SERVICE AGREEMENTS**

### **Management Service Agreement**

Effective January 1, 1994, as amended, the Company entered into a Management Services Agreement with CHC. The provisions of the agreement call for CHC to provide the management services listed in the agreement as such services required by the Company. Services performed include marketing, administrative, and other incidental functions. Further, the agreement establishes a cost allocation methodology that is based upon plan membership.

### **Healthcare Agreements**

As of the examination date, the Company maintained five agreements with affiliates covering various aspects of its healthcare related services, including mental health, dental, rehabilitation, network of participating providers, and pharmacy services. The below identifies the affiliates and the related services provided:

- CBH – Mental Health Services
- CDH – Dental Services
- Intracorp – Rehabilitation Services
- CGLIC – Participating Providers
- Tel-Drug Inc. – Pharmacy Services

### **Investment Advisory Agreement**

The Company participates in an Investment Advisory Agreement, as amended, with its affiliate CIGNA Investments, Inc. CIGNA Investments, Inc. (Advisor) acts as the Company's investment advisor. Pursuant to this agreement, the Advisor makes investment decisions regarding the acquisition, disposition or holding of the Company's securities portfolio.

### **Premium Billing Authorization Agreement**

The CIGNA Health Access Premium Billing Authorization Agreement by and among CIGNA and certain subsidiaries, including the Company, enables each HMO to provide CIGNA

Cigna Healthcare of Delaware, Inc.

health access customers with a single premium bill. There were no amendments to this agreement since the previous examination.

### **Federal Income Tax Agreement**

The Company currently participates in a Consolidated Federal Income Tax Agreement by and between CIGNA Corporation and its subsidiaries adopted January 1, 1997, in order to facilitate the filing of a consolidated federal income tax return as an affiliated group under CIGNA Corporation. Pursuant to this agreement, tax payments are paid to CIGNA Corporation based on taxable income of the Company. In the case of a taxable loss, CIGNA Corporation pays the Company a refund based on the Company's taxable loss, but only to the extent CIGNA Corporation is able to utilize the loss in the consolidated tax return. There were no amendments to this agreement since the last examination.

The above agreements were all approved by the Delaware Department of Insurance prior to implementation.

## **TERRITORY AND PLAN OF OPERATION**

### **Territory**

The Company is licensed only in the State of Delaware and serves the counties of Kent, Sussex and New Castle.

### **Plan of Operation**

The Company provides a range of products and services including health maintenance organization and point-of-service plans, managed behavioral health care services and employee

assistance programs, medical cost and utilization management, and management pharmacy programs, either directly or through affiliated companies.

Membership has decreased since the last examination from 611 members as of December 31, 2002 to 165 members as of December 31, 2006.

### **GROWTH OF COMPANY**

The following information was obtained from the Company's filed annual statements:

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Total Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Premiums</u>	<u>Net Income</u>
2006	\$1,776,289	\$ 469,120	\$1,307,169	\$ 613,665	\$ 208,667
2005	2,496,207	402,946	2,093,261	547,470	215,984
2004	2,482,890	567,710	1,915,181	731,658	391,167
2003	3,007,778	1,581,180	1,426,598	942,350	(478,801)
2002	4,307,974	385,986	3,921,988	1,154,608	297,997

- The decrease in net admitted assets was primarily due to the sale of short-term investments and bonds during the examination period.
- The decrease in total liabilities since 2003 was primarily due to lower recorded claims payable resulting from a decrease in membership, and favorable prior year claims development. The increase in liabilities from 2002 to 2003 was due to an increase in amounts due to affiliates.
- The decrease in net income for the examination period was due to increases in medical expenses, increases in general administrative expenses, and a decrease in investment income due to sales of investments.

### **REINSURANCE**

The following is a summary of the Company's only ceded reinsurance contract that was in place as of December 31, 2006:

Name of Reinsurer:	Connecticut General Life Insurance Company
Name of Reinsured:	Subsidiary "Plans" of CIGNA HealthCare, Inc.
Type of Contract:	Hospital Services Reinsurance
Effective Date:	Originally effective January 1, 1994
Expiration Date:	Effective until termination
Insolvency Clause:	Present in the agreement
Business Reinsured:	All plans written by the Company
Company's Retention:	\$250,000 deductible then 80% reinsured per individual

CIGNA Health Corporation (CHC) administers the reinsurance agreement. Under the provisions of the agreement, the Company pays a premium rate per plan member and is reimbursed 80% of the hospital and related services in excess of the deductible per individual. The deductible was reduced to \$150,000 effective January 1, 2007.

### **ACCOUNTS AND RECORDS**

The Company contracts with an affiliated accounting and actuarial consulting company to maintain its accounting records. See detailed discussion of this agreement under the section entitled "Management and Service Agreements."

The Company's closing balance sheet and other documents were reviewed for the purposes of this examination. A review of the adjusted trial balance as of December 31, 2006, indicated that the balances supported the financial data of the Company's 2006 annual statement. Based on the examination review of annual statement classifications and subsequent discussions with management, the accounting system and procedures conform to insurance accounting standard practices and requirements.

**FINANCIAL STATEMENTS**

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2006.

Analysis of Assets  
 Liabilities, Surplus and Other Funds  
 Statement of Revenue and Expenses  
 Capital and Surplus Account  
 Schedule of Examination Adjustments

Analysis of Assets  
 December 31, 2006

	Ledger Assets	Non-Admitted Assets	Net Admitted Assets	Notes
Bonds	\$ 1,642,969		\$ 1,642,969	1
Cash, cash equivalents, and short-term investments	71,847		71,847	
Investment income due and accrued	29,497		29,497	
Premiums in course of collection	26,720	1,626	25,094	
Net deferred tax asset	33,467	26,719	6,748	
Aggregate write-ins for other than invested assets:				
Brokers Commission Receivable	335	335	0	
Prepaid assets	2,784	2,650	134	
Total Assets	<u>\$ 1,807,619</u>	<u>\$ 31,330</u>	<u>\$ 1,776,289</u>	

Statement of Liabilities, Surplus and Other Funds  
As of December 31, 2006

	Covered	Uncovered	Total
Claims unpaid	\$ 74,192	\$ 4,808	\$ 79,000
Unpaid claims adjustment expenses	1,746	113	1,859
Premiums received in advance	582	0	582
Current federal and foreign income tax payable	53,351	0	53,351
Amounts due to parent, subsidiaries and affiliates	322,066	0	322,066
Aggregate write-ins for other liabilities:			
Commission to agents or accrued	2,207	0	2,207
Credit balances due policyholders	8,380	0	8,380
Escheat liabilities	1,675	0	1,675
Total Liabilities	<u>\$ 464,199</u>	<u>\$ 4,921</u>	<u>\$ 469,120</u>
Common capital stock			\$ 300,000
Gross paid-in and contributed surplus			12,651,839
Unassigned funds (surplus)			<u>(11,644,670)</u>
Total Capital and Surplus			<u>\$ 1,307,169</u>
Total Liabilities, Capital and Surplus			<u>\$ 1,776,289</u>

Statement of Revenue and Expenses  
December 31, 2006

**INCOME**

Net premium income	\$ 613,665	
Total revenues	<u>613,665</u>	\$ 613,665
 <b>Hospital and Medical</b>		
Hospital/medical benefits	\$ 315,940	
Other professional services	31,083	
Outside referrals	23,174	
Emergency room and out-of-area	20,324	
Prescription drugs	<u>40,598</u>	
Total Hospital and Medical		\$ 431,119
Claims adjustment expenses	\$ 6,018	
General administrative expenses	37,430	43,448
Total Underwriting deductions	<u>43,448</u>	<u>\$ 474,567</u>
Net underwriting gain or (loss)		\$ 139,098
Net investment income earned	\$ 124,810	
Net realized capital gains (losses)	<u>0</u>	
Net gain or (losses)		<u>\$ 124,810</u>
Net income before federal income taxes		\$ 263,908
Federal income taxes incurred		<u>55,241</u>
Net income		<u><u>\$ 208,667</u></u>

Capital and Surplus Account

December 31, 2005 through December 31, 2006

Capital and Surplus, December 31, 2005		<u>\$ 2,093,261</u>
Net income		208,667
Change in net deferred income tax	\$ (25,234)	
Change in non-admitted assets	30,476	
Dividends to stockholders	<u>(1,000,000)</u>	
		<u>(994,758)</u>
Change in surplus as regards policyholders for the year		<u>\$ (786,091)</u>
Capital and Surplus, December 31, 2006		<u><u>\$ 1,307,170</u></u>

**SCHEDULE OF EXAMINATION ADJUSTMENTS**

There were no examination adjustments made.

**NOTES TO THE FINANCIAL STATEMENTS**

**Note 1 – Bonds**

**\$1,642,969**

Procedures were performed to confirm the existence and ownership of the bond investments reported in Schedule D, Part 1 of the 2006 annual statement. These procedures were performed without exception. The Company's bond portfolio comprised 92% of total admitted assets as of December 31, 2006. All of the Company's bonds were rated Class 2 or better by the NAIC Securities Valuation Office.

**COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

The Company's compliance with prior examination recommendations was reviewed for each account involved, in the current examination. All prior examination recommendations were either directly or indirectly addressed subsequent to the previous examination.

**SUMMARY OF RECOMMENDATIONS**

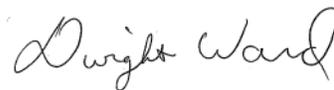
There were no recommendations made in this examination report.

**CONCLUSION**

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<b><u>Description</u></b>	<b><u>December 31, 2006</u></b>	<b><u>December 31, 2002</u></b>	<b><u>Increase</u></b>
Assets	\$1,776,289	\$4,307,974	\$(2,531,685)
Liabilities	469,120	385,986	83,134
Capital and Surplus	1,307,169	3,921,988	(2,614,819)

Respectfully submitted,



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Dwight Ward, CFE  
Examiner In-Charge  
State of Delaware